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Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Mexico [MX1]
[MX]

Welcome to Hot Bites from Mexico, a weekly review of issues of interest to the U.S. agricultural community. The topics covered in this report reflect developments in Mexico that have been garnered during travel around the country, reported in the media, or offered by host country officials and agricultural analysts. Readers should understand that press articles are included in this report to provide insights into the Mexican "mood" facing U.S. agricultural exporters. Significant issues will be expanded upon in subsequent reports from this office.

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MEXICO'S NEEDS A BETTER RURAL DEVELOPMENT POLICY TO PREPARE FOR FULL NAFTA IMPLEMENTATION

Isabel Guerrero, former director of the World Bank for Mexico and Colombia, said that full implementation of the NAFTA agricultural chapter poses challenges for Mexico' rural and agricultural sectors. Guerrero noted that analysis shows that Mexico's agricultural subsidies only benefit larger producers and fail to promote competitiveness. She stated that producer subsidies need to be reviewed in order to ensure that they benefit those most in need, and to ensure that they take into consideration the full implementation of the NAFTA agreement. Guerrero claims that without changes to help farmers face NAFTA challenges, poverty will increase. (Source: El Universal; 02/08/2007)

RISING PRICE OF FOOD STAPLES SPELLS FUTURE TROUBLE

As President Felipe Calderon marched across the nation unveiling social programs and touting the military-led crackdown against drug lords, a round shadow followed him, darkening his sunny message. It was the ubiquitous tortilla, rising rapidly in price and reminding Mexicans that all is not well with the once-humming economy. At public events angry women intercepted the new president, who faces his first mini-crisis since taking office December 1. Hundreds of thousands of protesters took to the streets in the Mexican capital last Wednesday February 7, demanding an emergency wage hike to counter surging prices for sugar, onions, and tortillas. "There is no doubt that the biggest challenge is going to be the economy," said economist Rogelio Ramirez de la O, who served as an adviser to losing presidential candidate Andres Manuel Lopez Obrador. "The issue of insecurity is important and gets a lot of media attention," said Ramirez de la O. "But the economy is a huge challenge because the government believes it can resolve everything through continuity, and if they continue insisting on this path, it will not solve the real issues and there will be many small crises." Mexico, which has been gobbling up U.S. goods and exporting record amounts to the United States, may face the end of a charmed period during which it grew rapidly with low inflation and managed to generate budget surpluses. More serious economic problems would mean fewer Mexican shoppers in Dallas malls and more illegal immigrants, analysts say. In addition to the specter of higher food prices and higher inflation, a drop in oil prices for Mexican crude exports could push the government into a budget deficit. Likewise, oil production is falling. Officials acknowledge a coming economic slowdown and, with it, a possible increase in unemployment. "The real challenge to Mexico is the same it has been for the last decade: to have enough economic growth to create jobs for young people," said Bernard L. Weinstein, director of the Center for Economic Development and Research and a professor of applied economics at the University

of North Texas in Denton. U.S. Commerce Secretary Carlos M. Gutierrez said after meeting with Calderon last week that Mexico is on its best financial footing in many years, but, like all developing nations, it faces stiff global competition. "This is a very important commercial relationship, and my whole purpose in being here is to make it bigger, to make it grow," Gutierrez said. Despite growing U.S.- Mexico trade, China has taken Mexico's place as the United States' No. 2 trading partner, he noted. The head of Mexico's central bank, Guillermo Ortiz, predicted late last month that economic growth will fall to about 3.5 percent in 2007 from 4.8 percent in 2006. Meanwhile, inflation could run as high as 4.5 percent in coming months, well above the government's goal of 3 percent, Ortiz said. The bank was worried that isolated price hikes could "contaminate" the larger economy, but he said, the central bank would step in quickly to tame inflation if necessary. Mexico's stock market remained a strong performer, and many economic analysts do not see serious danger in the short term. But they also do not see the types of structural reforms in the energy industry or other sectors that would bring new dynamism to the economy. "The great problem is the lack of competition," said Raul Feliz, an economist at the Center for Economic Research and Teaching in Mexico City. "The first thing we must understand is that because of the close presidential election, this is not a president who has a big mandate to push through controversial reforms. The great problem with the Mexican economy is that while it has had macroeconomic stability, its performance has been very mediocre," said Feliz, who sees more of the same under the new president. Calderon's limited choices were made clear as he tried to get a handle on tortilla prices. The price hike varied greatly from region to region, but a kilo (2.2 pounds) nearly doubled to 10 pesos (92 cents) in some communities over the course of a year, with December particularly bad. Producers blame higher international corn prices. The issue has caught the attention of average Mexicans because the tortilla remains the greatest source of calories for the poor. In mid-January, Calderon quickly convinced many producers and distributors to hold prices or lower them, with a cap at 8.5 pesos (U.S. \$0.78 cents) per kilo. But the accord was voluntary, many small tortilla makers ignored it, and some even used the 8.5-peso cap to raise their prices. And the "tortilla pact" expires in three months. The Mexican government also raised limits on imports of tariff-free corn from abroad, mostly from the United States. But consumers remained skeptical of the new deal. "I do not think it is going to work," said Maria del Carmen Santiago Lopez, 49, a Mexico City secretary. "What does not rise in price now is going to rise once their famous pact is over. I would have liked to see an agreement that raised prices on luxury cars. This hits the poor directly." Less noticed by average Mexicans was the drop in oil prices on international markets at the end of 2006, just as the Mexican Congress passed a budget heavily dependent on oil revenue. State-owned oil giant Petroleos Mexicanos, or Pemex, has long provided about one-third of the government's budget, limiting its own investment. The oil price drop in the first two weeks of the year put Mexico's heavier mix of oils hovering around the budgeted price of U.S. \$42.80 per barrel and rang financial alarm bells. Since then global oil prices have recovered, but the issue remains a wild card for the government, given its dependence on oil revenue. Pemex may not enjoy the U.S. \$27.6 billion it received from sales abroad in 2006, and some analysts predict production will fall as its big offshore wells decline after decades at full capacity. "This powerful stimulus (to the economy) is no longer there, and the government does not have a shock absorber," Ramirez de la O said. Calderon, in an interview last month with the Mexico City newspaper El Universal, characterized the coming economic environment as "adverse" and "complex" but also said the government does have several tools at its disposal, including a contingency fund in case oil prices fall. During a late January speech in Britain, Calderon said the future of the Mexican economy is bright. He cited an analysis by Goldman Sachs, published in The Economist, predicting that Mexico will have the fifth-largest economy in the world in 2040. "Mexico is not the promised land, but it is the land of the future," Calderon said during the investment seminar. Back home, Calderon's office said that the president respected people's right to protest against price increases and that

the government would lead the way toward promoting a healthy economy that creates jobs and reduces poverty. (Source: El Universal; 02/16/2007)

MEXICO WILL NOT ASK FOR RENEGOTIATION OF NAFTA AG CHAPTER: FOREIGN AFFAIRS MINISTRY

Chancellor Patricia Espinosa reported to Mexican Senators that the Felipe Calderon government will work to engage all countries in a respectful dialogue, without exception. Because of the Congress's insistence that the government not neglect foreign policy, as happened during the Fox administration, the Chancellor ensured that this administration's policy is to adhere to Mexico's constitutional principles of non-intervention and personal sovereignty. Outside of Mexico's border, she stated that the administration will carry out a policy whose sole purpose is to improve the well-being of Mexicans. During her first appearance with lawmakers, Espinosa specified that Mexico will not broach the topic of renegotiating the agricultural chapter of NAFTA because NAFTA partner countries - the United States and Canada - would then have the opportunity to make requests of their own. (Source: El Universal & Reforma; 02/14/2007)

NAFTA NOT THE CAUSE OF THE CRISIS IN AGRICULTURE

Jaime Zabudovsky, who was part of Mexico's negotiating team of the North America Free Trade Agreement (NAFTA), stated that the losses in Mexican agriculture are not because of the commercial opening, but rather due to many decades of poor public policy. Zabudovsky, who was also undersecretary of International Trade Negotiations during the Ernesto Zedillo government, assured that it is true that there have been winners because of NAFTA, but it is lamentable that there are not more winners, and that the losers have not been able to improve their livelihoods. (Source: El Universal; 02/12/2007)

POULTRY PRODUCERS REJECT PRICE INCREASES

Despite the increased costs of yellow corn and oilseeds, the current price levels in the poultry sector still allow for slight profitability, thus the prices of poultry and table eggs are not expected to increase in the following weeks or even months. Furthermore, Sergio Chavez, Executive Vice President of the National Poultry Association (UNA), affirmed that the poultry sector is expecting to increase their market share at the expense of the other meat products. This expansion is due to the fact that poultry products are the cheapest source of animal protein, and consumers will substitute beef and pork purchases for poultry in the face of high levels of inflation. Chavez declared that there is concern within the sector because of expected increases in plantings of yellow corn in the U.S. The new corn acreage will displace soybean planting, thus reducing supply of soybeans, and driving up prices. "Mexico's soybean production is almost nonexistent so we depend on soybean imports for feedstock", Chavez said. The current average producer price of live chicken is \$12.50 per kilogram, and about \$11.50 for table eggs. Sergio Chavez concluded by saying that due to the existence of a diversified supply of poultry products such as organic table eggs, Omega 3 eggs, and packaged meat in supermarkets, it is hard to be precise about production costs. (Source: El Financiero; 02/16/2007)

PRI LOBBYING FOR NAFTA RENEGOTIATION

"The timely renegotiation of NAFTA agricultural matters may help to prevent the future occurrence of a situation like the one with corn and tortillas, since dry beans, wheat, rice and milk may cause even larger conflicts than this one," stated Hector Padilla Gutierrez, President of the Agricultural Commission, who represents the PRI faction in the Lower House. Padilla called for a Great National Front for the NAFTA renegotiation, in which the Legislative and Executive powers would coordinate with the involved appropriate industry sectors. He also reported that the lower house has been working with the Senate Rural Development Commission, producer's organizations, and state secretaries of agriculture with the objective of coming up with a mutually agreed upon proposal for a NAFTA renegotiation. In the same vein, he denied that Mexico is in a "no-way-out situation" because of the executive branch's determination to implement the agreement as written. (Source: El Financiero; 02/12/2007)

CORN PRICES TO DRIVE UP MEAT PRICES

Raul de la Paz, president of the Meat Mexican Council (COMECARNE), warned of an impending increase in prices of meat and sausages due to high corn prices. "At this moment, the poultry, beef and pork producers have refused to pass on the effects of the recent surge in corn prices to the industry, traders, or the final consumer. However, the forecast is that they cannot maintain their current pricing structure beyond March or April. Thus, a price increase on meat products could be in place by May." To avoid this situation De la Paz proposed that the federal government deliver a subsidy package to the livestock sector so they can buy corn at lower prices. He added that a petition in this vein was delivered to the Secretariats of Agriculture (SAGARPA) and Economy (SE). (Source: Reforma, 02/16/2007)

CALIFORNIA TAKING ADVANTAGE OF MEXICAN HASS AVOCADO AVAILABILITY

The U.S. Government decision to grant access of Mexican Hass avocados to the State of California will help to stabilize avocado prices, stated Rosario Marin, former U.S. treasurer. During the Fifth Bajio Industrial Forum of the Industrial Chambers Confederation (CONCAMIN), Marin, who is currently the California Secretary of the State and Consumer Services, explained that after the recent freeze in California it is forecast that California avocado production will be down for the next two years. "This fact is opening an excellent opportunity for the Mexican Hass avocado because of the 9 million Latinos in California who are accustomed to consuming this produce" Marin said. (Source: El Universal; 02/03/2007)

MEXICO A POSSIBLE THIRD PARTY IN CANADA-UNITED STATES CORN CASE

Mexican agricultural organizations are hoping that the Secretariat of Economy will decide to participate as a "third party" in Canada's request for consultations on U.S. corn subsidies at the World Trade Organization (WTO). Fifteen countries have already signed on as third parties to Canada's request for consultations, including Brazil, Argentina, Australia and South Africa. The petition claims that over the past two years U.S. corn production has received more than nine billion dollars annually, which purportedly distorted international prices, reducing competitiveness of non-U.S. corn growers. (Source: El Financiero; 02/09/2007)

LAWMAKERS SUPPORT REVIEW OF U.S. CORN SUBSIDIES

The Coordination Committee of Mexico's Lower House, which includes the coordinators of all the political parties represented in the Congress, demanded that President Felipe Calderon request that Mexico be a part of a Canadian call for a WTO review of U.S. corn subsidies. (Source: Excelsior & La Jornada; 02/16/2007)

MEXICAN GOVERNORS CALL FOR CALDERON TO RENEGOTIATE NAFTA

Mexico's National Governors' Conference (CONAGO) delivered to President Felipe Calderon a 60-page "Proposal for Rural Public Policy Regulations", where they recommend the GOM renegotiate NAFTA's agricultural chapter. CONAGO claims that current policy has not provided the tools to face international competition, elevate productivity, and consolidate competitiveness in Mexico. The proposal includes the suggestion of using multi-annual rural budgets in order to provide certainty to agricultural workers, and to re-evaluate the different rural aid programs in order to provide efficient, long-term assistance to their beneficiaries. (LA CRONICA, FEB. 05)

INCREASING DEPENDENCY ON U.S. GRAINS

The current situation affecting the world grain markets, namely high prices and the use of grains as inputs for ethanol production, is forcing specialists to pay attention to the trade variables and the country's dependency on foreign agricultural commodities like grains and beef. According to Mexico's Central Bank, the agricultural trade balance between Mexico and the rest of the world, from Jan-Nov '06 registered a U.S. \$1.7 billion deficit. This deficit is 30% less than the one in '05 and 45% less than '04; yet still far from the Fox administration's promise to register a surplus by 2006. Looking closely into the trade balance, it is easy to see that Mexico's dependency on foreign grains and beef, particularly from the United States, has increased. While grain imports grew 17%, beef imports registered a 45% increase over the last six years. On the other side, Mexican exports of fresh fruits and vegetables, processed foods, and alcoholic beverages have compensated the trade balance. To reduce the risk of food being used for political intimidation, Mexican analysts suggest increasing corn production, using improved varieties, and investing in rural infrastructure. (EL FINANCIERO, FEB. 06)

GREEN LIGHT ON FOREIGN CORN IMPORTS

Three weeks after the GOM announced the new corn import quotas, Mexico's Ministry of Economy (SE) authorized the import permits. Out of the approved 1.3 million MT, 987,558 MT were allocated to government agencies, private companies, corn millers and feeding companies. The new corn import authorizations can be either yellow or white, from anywhere in the world and will have to be imported by April 31, 2007. (EL FINANCIERO, FEB. 09)

FOUR MORE ETHANOL PLANTS TO BE BUILT

Bioenergia Integral will build four ethanol plants in the states of Nayarit, Jalisco, Nuevo Leon and Sonora, where about 10 agro-producers will participate as stockholders and input providers. These plants will produce ethanol from sugarcane, yellow corn, beets, and sweet sorghum. Investment is believed to be more than \$360 million dollars. The objective of

Mexican and foreign investors is to reduce costs of production of fuels and increase production levels of the areas near the proposed plants. In Nayarit the company plans to increase sugarcane production by 10,000 hectares through special technology imported from Australia. The average yield for cane is about 50 to 60 tons per hectare, but the company expects to achieve 200 tons per hectare in the near future. However, cane prices have been a major obstacle for diversification of the sugar mills, as Mexico cane is sold at \$400 pesos per ton, whereas in Brazil a ton is sold at about \$180 pesos. One of the priorities of the Bioenergia is to achieve the conversion of the area planted under technical assistance and guarantee a domestic market. For that reason they have signed a cooperative agreement with INIFAP (National Agricultural Research Institute) to define the crops for every region, and with the National Water Commission, to detect the irrigated areas vulnerable to change. These four plants are independent of the other four plants that were announced in Sinaloa and Jalisco. (Source: Financiero 2/8/07)

REPORTS RECENTLY SUBMITTED BY FAS/MEXICO CITY

NUMBER	TITLE	DATE
MX7012	Dry Bean TRQ Announcement	2/16/07
MX7011	Weekly Highlights and Hot Bites #5	2/15/07
MX7010	Weekly Highlights and Hot Bites #4	1/30/2007
MX7009	Announces a Corn Import TRQ from WTO Member Countries	1/29/07
MX7008	Mexico Announces TRQ (Cupos) for Milk Powder Imports from the United States for 2007	1/23/07
MX7007	Mexico Announces the TRQ for Milk Powder Imports from WTO Member Countries	1/23/07
MX7006	DDGS Market	1/19/07
MX7005	Weekly Highlights and Hot Bites #3	1/19/2007
MX7004	Tortilla and Corn Price Surge	1/18/07
MX7003	Tax on the use of HFCS on Beverages was Eliminated	1/17/07

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